



WEEKLY ECONOMIC DIGEST

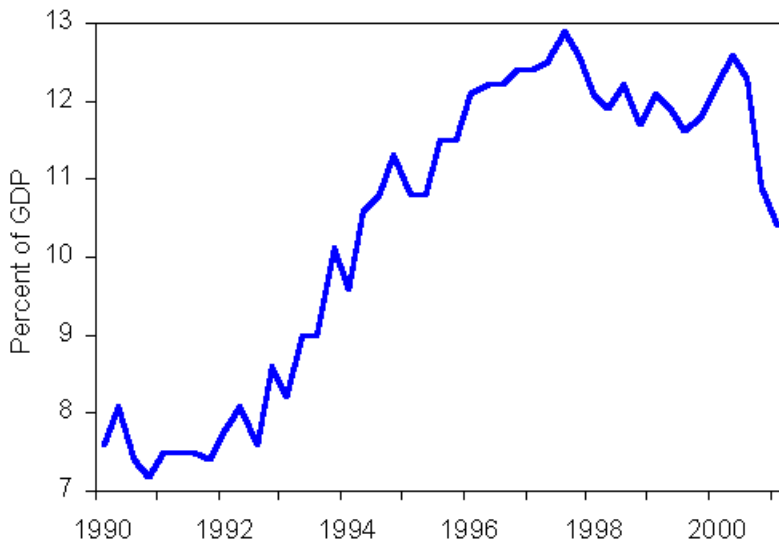
JOINT ECONOMIC COMMITTEE—DEMOCRATIC STAFF
SENATOR JACK REED—RANKING MEMBER



May 30, 2001

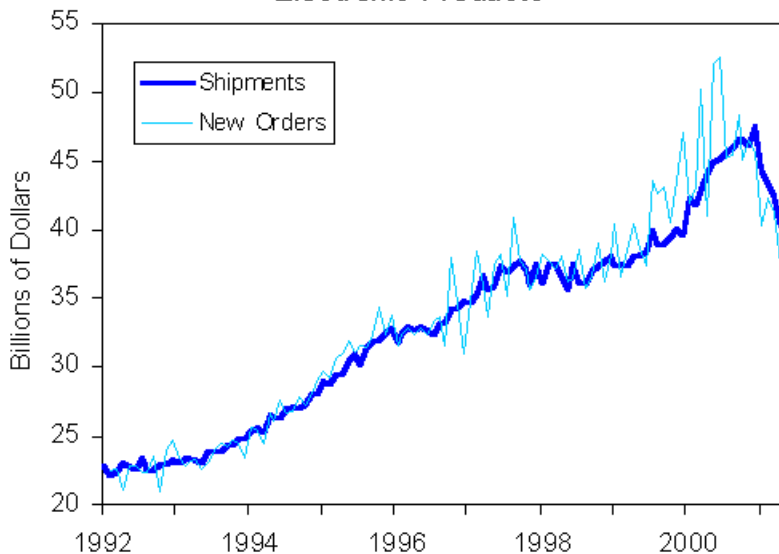
More Signs of Weakness

Economic Profits of
Nonfinancial Corporations



Source: Bureau of Economic Analysis, US Department of Commerce

Shipments and New Orders of Computer and
Electronic Products



Source: Census Bureau, US Department of Commerce

- **Economic growth in the first quarter was slower than previously estimated.** After adjusting for inflation, gross domestic product (GDP) grew at a 1.3 percent annual rate, rather than the 2 percent pace reported by the Commerce Department last month. A sharper inventory decline, higher imports, and slower retail sales contributed to the downward revision.
- **Corporate profits weakened in the first quarter.** The profits of nonfinancial corporations fell for the third straight quarter and were 12.6 percent below year-ago levels. Corporate margins have been squeezed by rising energy costs and by increases in unit labor costs that reflect recent declines in the rate of productivity growth. The Fed has voiced its concern that declining profitability would inhibit capital spending.
- **Equipment spending is down.** Consistent with their sagging profits, businesses have continued to trim expenditures on capital equipment. New orders for nondefense capital goods fell in April, with the weakness extending beyond declines in the volatile aircraft component. Shipments of computer and electronic products fell 5.1 percent from their March level, while new orders fell 8.8 percent.
- **Housing demand softens.** In April, sales of new homes fell 9.5 percent below the level reached in March, the largest decline in four years and well below what analysts had expected. Sales of existing homes also fell, and indicators of mortgage loan demand suggest a softening in housing demand.

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ECONOMY AT A GLANCE	May	Apr	Mar	Feb	2001 Qtr 1	2000 Qtr 4	2000 Qtr 3	2000 Qtr 2	2000	1999
Economic Activity										
Real GDP (% growth)					1.3	1.0	2.2	5.6	5.0	4.2
Industrial Production (% growth)		-3.5	-1.2	-4.7	-6.5	-0.9	3.5	7.9	5.6	4.2
Capacity Utilization(Level, %)		78.5	78.9	79.2	79.3	81.3	82.4	82.6	82.1	81.2
Civilian Unemployment Rate (Level, %)		4.5	4.3	4.2	4.2	4.0	4.0	4.0	4.0	4.2
Housing Starts (Thousands)		1609	1586	1623	1625	1539	1505	1586	1575	1647
Real Disposable Personal Income (% growth)		.8	5.7	3.3	2.3	0.7	2.6	3.7	2.8	3.2
Retail Sales (% growth)		10.2	-4.3	-2.5	3.9	0.4	5.5	1.7	7.7	9.1
Personal Saving Rate (Level, %)		-7	-6	-8	-9	-0.7	-0.2	0.3	-0.1	2.2
Inflation & Productivity										
CPI-U Inflation, All Items (% growth)		3.7	1.2	3.7	4.1	2.9	3.5	3.0	3.4	2.2
Core CPI-U Inflation (% growth)		2.4	2.4	3.7	3.2	2.4	2.5	2.7	2.4	2.1
Compensation per Hour (% growth)					4.6	3.5	3.8	4.2	4.3	3.2
Output per Hour (% growth)					-1	2.0	3.0	6.3	4.3	2.6
Financial Markets										
T-Bill Rate, 3-month (Level, %)	3.6	3.9	4.4	4.9	4.8	6.0	6.0	5.7	5.8	4.6
T-Note Rate, 10-years (Level, %)	5.4	5.1	4.9	5.1	5.1	5.6	5.9	6.2	6.0	5.6
Federal Funds Rate (Level, %)	4.2	4.8	5.3	5.5	5.6	6.5	6.5	6.3	6.2	5.0
Dow Jones Industrial Avg (Index Level)	11001	10235	10081	10775	10513	10586	10882	10703	10735	10465
<p>SOURCES: Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor; and, Haver Analytics.</p> <p>NOTES: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted annual rates. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate. <i>Italicized Values</i> are estimated by the JEC staff.</p>										

Major Economic News Due This Week:

- Construction Spending, April [Release: Friday, June 1, 2001]
- The Employment Situation, May [Release: Friday, June 1, 2001]

The big news of the coming week, this release will provide a clearer picture of the extent of the weakness that has beset labor markets since the start of the year.

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